

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of St. Louis	County Gratiot
Fiscal Year End June 30, 2007	Opinion Date December 14, 2007	Date Audit Report Submitted to State December 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

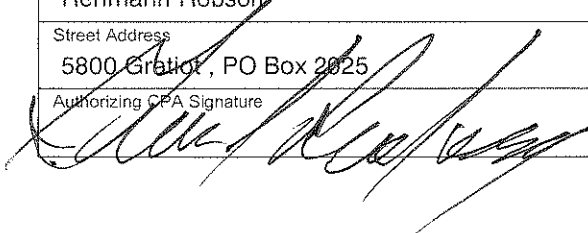
5  
11  
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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 		Printed Name Gerald J. Desloover, CPA	
		License Number 1101007126	



St. Louis, Michigan

Financial Statements  
For the Year Ended  
June 30, 2007



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF ST. LOUIS**  
**FINANCIAL STATEMENTS**  
**TABLE OF CONTENTS**

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	<u>PAGE</u>
<b>Introductory Section</b>	
<b>Letter of Transmittal .....</b>	i-iii
<b>Financial Section</b>	
<b>Independent Auditors' Report .....</b>	1-2
<b>Management's Discussion and Analysis .....</b>	3-11
<b>Basic Financial Statements</b>	
Government Wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities .....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	14
Reconciliation of the Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	16
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	18
Statement of Net Assets – Proprietary Funds.....	19
Reconciliation of the Proprietary Funds Statement of Net Assets to the Statement of Net Assets .....	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	21

**CITY OF ST. LOUIS**  
**FINANCIAL STATEMENTS**  
**TABLE OF CONTENTS**

---

	<u>PAGE</u>
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets of Enterprise Funds to the Statement of Activities.....	22
Statement of Cash Flows – Proprietary Funds .....	23
Statement of Fiduciary Net Assets – Fiduciary Funds .....	24
Notes to Financial Statements .....	25-48
 <b>Combining and Individual Fund Financial Statements and Schedules</b>	
Nonmajor Governmental Funds – Combining Balance Sheet.....	49
Nonmajor Governmental Funds – Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	50
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –	
Major Streets Fund .....	51
Local Streets Fund.....	52
Magnet Fund .....	53
T.A. Cutler Memorial Library Fund .....	54
Capital Improvement Special Revenue Fund.....	55
Combining Balance Sheet – Trust and Agency Funds .....	56
Combining Statement of Changes in Assets and Liabilities All Agency Funds.....	57
 <b>Single Audit Section</b>	
Schedule of Expenditures of Federal Awards.....	58
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	59-60
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	61-62
Schedule of Findings and Questioned Costs.....	63-64

## **INTRODUCTORY SECTION**



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December 26, 2007

To the Honorable Mayor, Members of the City Council and Citizens of the City of Saint Louis:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2007.

Management assumes full responsibility for the completeness and reliability of all of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated, objective is to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement.

Rehmann Robson, Certified Public Accountants have issued an unqualified ("clean") opinion on the financial statements of the City of Saint Louis for the year ended June 30, 2007. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complement this letter of transmittal and should be read in conjunction with it.

### **Profile of the Government**

The City of Saint Louis, incorporated in 1853, is located in the central part of Michigan, which is considered to be a growing area. The City of Saint Louis currently occupies a land area of three square miles and serves a population of 4494. The City of Saint Louis is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits, by annexation, or by agreement with adjacent governmental jurisdictions, which it has done from time to time.

The City of Saint Louis operates under the council-manager form of government. Policy-making and legislative authority are vested in a council consisting of the mayor and four other members all elected on a non-partisan basis. Council members serve four-year staggered terms, with two council members elected every odd year. The mayor is elected to serve a two-year term. The City Council is responsible, among other things, for passing ordinances, adopting the budget,

appointing committees, and hiring both the government's manager and clerk. The City Manager appoints the heads of the various other departments.

The City of Saint Louis provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; provision of water, sewer and electric utility services; trash collection; and recreation and cultural activities. The City of Saint Louis also is financially accountable for legally separate Downtown Development Authority which is reported separately within the City's financial statements. Additional information on this legally separate entity can be found in the notes to financial statements (See Note I).

The Council is required to adopt a budget for the ensuing fiscal year no later than its first regular meeting in the month of June. The annual budget serves as a foundation for the City's financial planning and control. The budget is prepared at the fund, function level (e.g., public safety), and department (e.g., police). The budget is adopted at the function level. Department heads may transfer resources within a department as they see fit; however, transfers from one department to another within a function requires City Manager approval. Transfers of appropriations between functions; however, require that a public hearing be held and approval of the City Council.

### **Local economy**

The region (which includes the City of Saint Louis and the surrounding incorporated and unincorporated area within the same county), has an employed labor force of approximately 1,865, which is anticipated to grow at a rate of between 2 percent and 3 percent each year for the next several years. The government's central business district is expected to maintain its current 90 percent occupancy rate with a variety of stores, specialty shops, and commercial businesses. Meanwhile, there continues to be a discernable trend toward steady residential growth.

### **Long-term financial planning**

Unreserved and undesignated fund balance in the general fund (29.9 percent of total general fund revenue) falls within the "rule of thumb" most generally used to determine financial stability of a City's General Fund as reported in "**Challenging Financial Times Continue for Local Governments**" a study conducted by Plant and Moran for the Michigan Municipal League. The study does go on to indicate that some small local governments do require as much as 30 percent unreserved undesignated fund balance.

## Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance, administration departments and accounting assistance from Bobbie Marr and staff of Page Olson & Co., P.C and Jamie Carruthers and staff of Rehmann Robson. We would like to express our appreciation to all members of the City staff, Page Olson & Co., P.C and Rehmann Robson who assisted and contributed to the preparation of this report. Credit also must be given to Mayor Kubin and City Council for their support for maintaining the highest standards of professionalism in the management of the City of Saint Louis' finances.

Respectfully submitted,



Robert McConkie, City Manager



Nancy L. Roehrs, City Clerk/Treasurer



## **FINANCIAL SECTION**



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

## **INDEPENDENT AUDITORS' REPORT**

December 14, 2007

City Council  
City of St. Louis  
108 West Saginaw Street  
St. Louis, Michigan 48880-1589

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of **City of St. Louis**, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of **City of St. Louis**, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of **City of St. Louis's** internal control over financial

reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the City of St. Louis, we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of St. Louis for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are presented in whole dollars

### Financial Highlights

- The assets of the City of St. Louis exceed its liabilities at the close of the most recent fiscal year by \$29,931,633. Of this amount \$2,710,802 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$345,771.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,288,986. Of this amount, \$1,106,113 is available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$419,898 or 25.9% of the total General Fund expenditures.
- The City's total debt decreased by \$349,645.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of St. Louis's basic financial statements. The City's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of St. Louis finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, community and economic development, recreation and culture. The business-type activities of the City include operation of water and sewer systems and an electric distribution system.

The government-wide financial statements include not only the City of St. Louis itself, (known as the primary government), but also a legally separate downtown development authority for which the City of St. Louis is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. The St. Louis Downtown Development Authority, although a separate legal entity, functions for all practical purposes as a department of the primary government.

The government wide financial statements can be found on pages 12-13 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of St. Louis, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of St. Louis can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds.* *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements; however, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of St. Louis maintains eleven individual governmental funds. Information is reported separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be major fund. Data from the other ten governmental funds are combined into a single,

aggregated presentation. Individual fund data for each of these non major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of St. Louis adopts an annual budget for its General Fund and any other major governmental funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

*Proprietary Funds.* The City of St. Louis maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented *as business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of St. Louis maintains four individual enterprise funds. Information is reported separately in the proprietary fund statement of net assets and in the proprietary fund statement of revenue, expenses, and changes in fund net assets, for the Water & Sewer Fund, the Electric Fund, the Housing Commission and the Solid Waste Fund, all of which are considered to be major funds

The City uses an internal service fund to account for its fleet of vehicles. Information is reported separately along with the proprietary fund statement of net assets and the proprietary fund statement of revenue, expenses, and changes in fund net assets. Because the services provided by the Motor Pool Fund predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 19-23 of this report.

*Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of St. Louis's own programs. The accounting for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on pages 24 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-48 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

## Government-wide Financial Analysis

The following summaries provide a perspective of financial information of the City as a whole.

City of Saint Louis

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 1,471,024	\$ 1,353,726	\$ 3,773,743	\$ 3,707,210	\$ 5,244,767	\$ 5,060,936
Capital assets	10,755,742	11,339,007	17,258,324	17,347,218	28,014,066	28,686,225
Total assets	\$ 12,226,766	\$ 12,692,733	\$ 21,032,067	\$ 21,054,428	\$ 33,258,833	\$ 33,747,161
Liabilities						
Current liabilities	\$ 161,711	\$ 144,604	\$ 491,459	\$ 422,978	\$ 653,170	\$ 567,582
Long term liabilities outstanding	770,978	829,886	1,903,052	2,136,888	2,674,030	2,966,774
Total liabilities	\$ 932,689	\$ 974,490	\$ 2,394,511	\$ 2,559,866	\$ 3,327,200	\$ 3,534,356
Net assets:						
Invested in capital assets, net of related debt	\$ 10,047,060	\$ 10,558,685	\$ 15,468,324	\$ 15,332,218	\$ 25,515,384	\$ 25,890,903
Restricted	171,021	302,038	1,534,426	1,534,426	1,705,447	1,836,464
Unrestricted	1,075,996	857,520	1,634,806	1,627,918	2,710,802	2,485,438
Total net assets	\$ 11,294,077	\$ 11,718,243	\$ 18,637,556	\$ 18,494,562	\$ 29,931,633	\$ 30,212,805

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of St. Louis, assets exceed liabilities by \$29,931,633 at the close of the fiscal year.

By far the largest portion of the City of St. Louis's net assets (93.5%) reflect its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate there liabilities.

An additional portion of the City's net assets (\$1,705,447) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$2,710,802) may be used to meet the City's ongoing obligations to citizens and creditors.



**City of St Louis**  
**Change in Net Assets**

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 313,113	\$ 374,065	\$ 5,244,194	\$ 5,201,468	\$ 5,557,307	\$ 5,575,533
Operating Grants & Contributions	545,344	448,024	827,393	720,781	1,372,737	1,168,805
Capital Grants & Contributions	-	13,818	160,875	23,455	160,875	37,273
General Revenues:						
Property Taxes	634,283	632,087	-	-	634,283	632,087
State Aid	508,761	527,713	-	-	508,761	527,713
Other	82,866	130,282	135,885	110,164	218,751	240,446
Transfers	376,043	438,410	(376,043)	(438,410)	-	-
Total Revenues	2,460,410	2,564,399	5,992,304	5,617,458	8,452,714	8,181,857
Expenses:						
Legislative	14,125	-	-	-	14,125	-
General Government	275,074	598,993	-	-	275,074	598,993
Public Safety	809,860	742,673	-	-	809,860	742,673
Public Works	1,313,441	1,151,054	-	-	1,313,441	1,151,054
Community & Economic Development	170,116	171,298	-	-	170,116	171,298
Recreation & Culture	327,709	323,459	-	-	327,709	323,459
Interest & Fiscal Charges	38,850	42,107	-	-	38,850	42,107
Electric	-	-	2,931,861	3,058,340	2,931,861	3,058,340
Water & Sewer	-	-	1,699,175	1,660,210	1,699,175	1,660,210
Housing Commission	-	-	990,111	1,042,922	990,111	1,042,922
Solid Waste	-	-	228,163	238,448	228,163	238,448
Total Expenses	2,949,175	3,029,584	5,849,310	5,999,920	8,798,485	9,029,504
Increase (decrease) in net assets	(488,765)	(465,185)	142,994	(382,462)	(345,771)	(847,647)
Net Assets - July 1, as restated	11,782,842	12,183,428	18,494,562	18,877,024	30,277,404	31,060,452
Net Assets - June 30	\$11,294,077	\$ 1,718,243	\$18,637,556	\$18,494,562	\$ 29,931,633	\$ 30,212,805

At the end of the fiscal year, the City of St. Louis is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's net assets decreased \$345,771 during the current fiscal year. Much of this decrease can be attributed to recording depreciation expense on infrastructure assets. This additional depreciation expense is evident in the public works expense, where by the majority of the infrastructure depreciation is allocated.

### **Governmental Activities**

Governmental activities net assets decreased by \$488,765 during the current fiscal year. This primarily is the effect of recording depreciation on assets.

## **Business-type activities**

Business type activities increased the City's net assets by \$142,994 during the current fiscal year. This is primarily due to reduced cost for transmission charges in the Electric Utility Fund. Also contributing is an increase of \$175,392 in HUD operating subsidies and capital grants in the Housing Commission Fund over the previous fiscal year.

## **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,288,986. This represents a minuscule increase of \$3,398 during the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$419,898, while the total fund balance reached \$451,673. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 25.9 percent of the total general fund expenditures, while the total fund balance represents 27.8 percent of that same amount.

Fund balance of the City's General Fund increased by \$33,183 during the current fiscal year. Key factors in this increase would be "transfers in" primarily caused by the closing of the Swimming Pool Construction Fund and the 1997 Special Assessment Debt Fund.

Fund balances in the special revenue funds decreased by \$15,862 during the current fiscal year. Key factors in this decrease are that several street rehabilitation projects were undertaken with Major Street Fund and Local Street Fund resources.

The fund balances of the debt service funds of the City decreased a total of \$3,342 during the current fiscal year due solely to the retirement of the 1997 Special Assessment Debt and related Fund. General Fund and other special revenue funds of the City transfer amounts necessary to pay current amounts due on bonded indebtedness. Fund balances in the bond debt funds are adequate to service short term needs as they arise.

The fund balances of the capital projects funds decreased \$17,954 during the current fiscal year. This is due solely to the closing of the Swimming Pool Construction Fund and transfer of the residual funds to the General Fund as designated for future swimming pool improvements.

Proprietary Funds. The City's proprietary funds provide the same type information found in the government-wide financial statement, but in more detail.

Unrestricted net assets of the Electric Utility Fund at the end of the year amounted to \$807,914. The total increase in net assets for the Electric Utility Fund was \$243,997. This increase in net assets is due primarily to the reduced cost for transmission charges from the prior year to the current.

Unrestricted net assets for the Water & Sewer system operations at the end of the year amounted to \$136,084. The total reduction in net assets for the Water & Sewer Utility Fund was \$205,221. The major issue resulting in reduction of net assets for the Water & Sewer Utility Fund is due primarily to not funding depreciation on assets fully from the prior year to the current.

The unrestricted net assets for the Housing Commission at the end of the year amounted to \$456,865. The total increase in net assets for the Housing Commission fund was \$83,131.

The unrestricted net assets for the Solid Waste fund at the end of the year amounted to \$47,268. The total increase in net assets for the Solid Waste fund was \$14,597. The primary reason for this increase of net assets was the customer rate increase at the beginning of the fiscal year. Customer rates were reviewed during the preparation of the 2007 FYE Budget and again during the preparation of the 2008 FYE Budget resulting in rate increases effective July 1, 2006 and again July 1, 2007.

### **General Fund Budgetary Highlights**

Originally budgeted revenue and other financing sources were reduced \$75,000 to more accurately reflect the estimated residual grant funds for the brownfield program from the previous year and anticipated new grant funds were not authorized.

Differences between the original budget and the final amended budget of expenditures and other financing uses totaled \$50,000. These decreases were needed as follows:

- To provide for increased funding necessary for a wages and benefits for public safety.
- To provide for reduction of \$70,000 anticipated grant funds not realized for brownfield work.
- To provide \$500 for additional "transfers out" to maintain required bank account balances to avoid monthly service charges until the Special Assessment Fund could be closed.

Actual expenditures compared to the final amended budget were \$100,249 less than the budget anticipated.

The largest difference in budget and actual was the excessive original budgeted amounts for general government activities not amended prior to fiscal year end.

## Capital Asset and Debt Administration

Major capital asset events during the current fiscal year include the following:

- Major Street Fund - Pavement Improvement Program for the year included asphalt pavement replacement on College Place, North Franklin, Hubbard and RiverCourt/Union streets at a cost of \$101,324.
- Local Street Fund - Pavement Improvement Program for the year included asphalt pavement replacement on Corinth, Watson, S. Franklin and Center streets at a cost of \$74,925.
- Sidewalk Improvement Program included replacement of an existing deteriorated sidewalk at a cost of \$15,082.
- The second phase of the Oak Grove Cemetery Expansion Project was completed. An asphalt pavement was placed on a gravel base for the new street at a cost of \$10,065.
- Project to convert electric supply to the industrial park from a 4160v circuit to 12,470 v circuit was completed.
- Following the discovery of traces of the chemical compound para-Chlorobenzene Sulfonic Acid in three of the City water wells, efforts began to study replacement of this portion of the municipal water supply. Initial work was performed to evaluate options and prepare a preliminary hydro-geological study. At conclusion of the study several test borings, observation wells and a test production well were drilled in effort to locate alternative water supply.

Additional information on the City's capital assets can be found in Note III. C. on pages 37 – 39 of this report.

### **Long-Term Debt**

At the end of the current fiscal year, the City had a total bonded debt outstanding of \$2,674,029. Of this amount \$660,000 is secured by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specific revenue sources (i.e. revenue bonds or leases) or contracts secured by property.

The City's total debt decreased during the current fiscal year by \$349,645. The key factor in this decrease was payment of annual installments on bonds of \$290,000. Additional information on the City's long term debt can be found in Note III. F. of the Notes to Financial Statements.

### **Economic Factors and Next Year's Budgets and Rates**

- The City unemployment rate data is not reported; however the County unemployment rate as of the fiscal year ended was 7.9%. The State's unemployment rate of 7.2 percent

however, is somewhat less favorable to the National unemployment rate of 4.5 percent for the same period ending. As of this writing, however, although the National unemployment rate stands at 4.6 percent and the State (7.7%) has suffered worsening employment conditions, the conditions in Gratiot County have improved (7.8%). Local indicators are favorable for this trend to continue. According to the Research Seminar in Quantitative Economics, Michigan's economy will not substantially improve in 2008; however, the economy will begin turn-around in early 2009.

- The occupancy rate of the City's central business district has remained steady at 90% for the past three years.

During the current fiscal year, the unreserved fund balance in the General Fund increased to \$419,898. The City has projected a balanced budget with necessity for appropriation of (approximately \$95,000) of the fund balance during the upcoming fiscal year. It is intended that the available fund balance will be sufficient to meet any unforeseen changes in the local economy from the time the budget was prepared through the 2007-08 fiscal year.

Water, sewer and solid waste collection rates for the second straight year were increased effective with the new fiscal year. Prior to the 2007 FYE, utility rates had not been adjusted since early 2002. A rate study has been undertaken for the Electric Utility and results of the study are expected during mid fiscal year ending June 2008.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Saint Louis finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Nancy Roehrs, City Clerk, City of Saint Louis, 108 W. Saginaw Street, Saint Louis, Michigan 48880.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF ST. LOUIS**  
**STATEMENT OF NET ASSETS**  
**June 30, 2007**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Downtown Development Authority</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,026,751	\$ 1,077,586	\$ 2,104,337	\$ 45,667
Investments	91,633	-	91,633	-
Receivables	294,443	584,818	879,261	-
Internal balances	(279,957)	279,957	-	-
Prepaid items and other assets	108,717	59,502	168,219	-
Inventory	11,088	180,615	191,703	-
Restricted cash and cash equivalents	102,489	255,276	357,765	-
Restricted investments	115,860	1,335,989	1,451,849	-
Nondepreciable capital assets	2,349,113	541,088	2,890,201	-
Capital assets, net of depreciation	8,406,629	16,717,236	25,123,865	-
<b>Total assets</b>	<b>12,226,766</b>	<b>21,032,067</b>	<b>33,258,833</b>	<b>45,667</b>
<b>Liabilities</b>				
Accounts payable	143,795	490,788	634,583	4,187
Unearned revenue	17,916	671	18,587	-
Noncurrent liabilities:				
Due within one year	75,071	146,365	221,436	-
Due in more than one year	695,907	1,756,687	2,452,594	-
<b>Total liabilities</b>	<b>932,689</b>	<b>2,394,511</b>	<b>3,327,200</b>	<b>4,187</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	10,047,060	15,468,324	25,515,384	-
Restricted for:				
Debt service	6,688	690,140	696,828	-
Capital projects	-	844,286	844,286	-
Perpetual care - nonexpendable	151,098	-	151,098	-
Perpetual care - expendable	13,235	-	13,235	-
Unrestricted	1,075,996	1,634,806	2,710,802	41,480
<b>Total net assets</b>	<b>\$ 11,294,077</b>	<b>\$ 18,637,556</b>	<b>\$ 29,931,633</b>	<b>\$ 41,480</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2007**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government</b>				
Governmental activities:				
Legislative	\$ 14,125	\$ -	\$ -	\$ -
General government	275,074	55,474	7,716	-
Public safety	809,860	51,654	123,238	-
Public works	1,313,441	30,331	322,937	-
Community and economic development	170,116	20,000	84,158	-
Recreation and culture	327,709	120,538	7,295	-
Interest and fiscal charges on debt	38,850	35,116	-	-
Total governmental activities	<u>2,949,175</u>	<u>313,113</u>	<u>545,344</u>	<u>-</u>
Business-type activities:				
Electric	2,931,861	3,345,032	-	-
Sewer and water	1,699,175	1,493,596	68,640	-
Housing commission	990,111	143,755	758,753	160,875
Solid waste	228,163	261,811	-	-
Total business-type activities	<u>5,849,310</u>	<u>5,244,194</u>	<u>827,393</u>	<u>160,875</u>
Total primary government	<u>\$ 8,798,485</u>	<u>\$ 5,557,307</u>	<u>\$ 1,372,737</u>	<u>\$ 160,875</u>
<b>Component unit</b>				
Downtown Development Authority	<u>\$ 15,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

continued...



Functions/Programs	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (2,090,718)	\$ 383,152	\$ (1,707,566)	\$ (15,461)
General revenues:				
Property taxes	634,283	-	634,283	27,003
Grants and contributions not restricted to specific programs	508,761	-	508,761	-
Unrestricted investment earnings	67,094	92,775	159,869	1,680
Miscellaneous	15,772	43,110	58,882	-
Transfers - internal activities	376,043	(376,043)	-	-
Total general revenues and transfers	1,601,953	(240,158)	1,361,795	28,683
Change in net assets	(488,765)	142,994	(345,771)	13,222
Net assets, beginning of year, as restated	11,782,842	18,494,562	30,277,404	28,258
<b>Net assets, end of year</b>	<u>\$ 11,294,077</u>	<u>\$ 18,637,556</u>	<u>\$ 29,931,633</u>	<u>\$ 41,480</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2007**

	<b>General</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 320,919	\$ 608,114	\$ 929,033
Investments	66,731	24,902	91,633
Accounts receivable, net of allowance for doubtful accounts	29,171	9,527	38,698
Taxes receivable, net of allowance for doubtful accounts	11,700	-	11,700
Due from other governmental units	182,375	61,670	244,045
Prepaid expenditures	24,437	967	25,404
Inventory	7,338	-	7,338
Restricted assets:			
Cash and cash equivalents	24,970	77,519	102,489
Investments	-	115,860	115,860
<b>Total assets</b>	<b>\$ 667,641</b>	<b>\$ 898,559</b>	<b>\$ 1,566,200</b>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 36,981	\$ 44,466	\$ 81,447
Accrued liabilities	33,236	5,299	38,535
Deposits and other liabilities	550	-	550
Due to other funds	10,453	2,707	13,160
Advance from other funds	100,000	-	100,000
Deferred revenue	34,748	8,774	43,522
<b>Total liabilities</b>	<b>215,968</b>	<b>61,246</b>	<b>277,214</b>
<b>Fund balances</b>			
Reserved			
Prepaid expenditures	24,437	-	24,437
Inventory	7,338	-	7,338
Permanent trust	-	151,098	151,098
Unreserved			
Undesignated, reported in:			
General Fund	419,898	-	419,898
Special Revenue Funds	-	666,292	666,292
Debt Service Funds	-	6,688	6,688
Permanent Fund	-	13,235	13,235
<b>Total fund balances</b>	<b>451,673</b>	<b>837,313</b>	<b>1,288,986</b>
<b>Total liabilities and fund balances</b>	<b>\$ 667,641</b>	<b>\$ 898,559</b>	<b>\$ 1,566,200</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2007**

Fund balances - total governmental funds	\$ 1,288,986
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	29,576,407
Subtract: accumulated depreciation	(19,126,393)

The net pension asset used in governmental activities is not financial resources, and therefore not reported in the funds.

Add: net pension asset	81,715
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenue on special assessments and contracts receivable	25,605
---	--------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	215,475
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(660,000)
Subtract: installment contracts and capital lease payable	(48,682)
Subtract: accrued interest payable	(7,987)
Subtract: compensated absences	(51,049)

Net assets of governmental activities	<u>\$ 11,294,077</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the year ended June 30, 2007**

	<b>General</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Revenues</b>			
Property taxes	\$ 634,283	\$ -	\$ 634,283
Special assessments	-	1,715	1,715
Licenses and permits	13,729	-	13,729
Intergovernmental	606,419	374,680	981,099
Charges for services	46,761	40,868	87,629
Fines and forfeits	10,917	111,566	122,483
Donations	-	54,870	54,870
Interest and rent	32,210	72,685	104,895
Other revenue	56,285	21,008	77,293
<b>Total revenues</b>	<b>1,400,604</b>	<b>677,392</b>	<b>2,077,996</b>
<b>Expenditures</b>			
Current:			
General government	483,729	-	483,729
Public works	144,420	444,625	589,045
Public safety	693,193	107,605	800,798
Community and economic development	167,373	-	167,373
Recreation and culture	120,682	188,633	309,315
Debt service	10,586	100,775	111,361
<b>Total expenditures</b>	<b>1,619,983</b>	<b>841,638</b>	<b>2,461,621</b>
<b>Revenues over (under) expenditures</b>	<b>(219,379)</b>	<b>(164,246)</b>	<b>(383,625)</b>
<b>Other financing sources (uses)</b>			
Transfers in	301,562	217,773	519,335
Transfers (out)	(49,000)	(83,312)	(132,312)
<b>Total other financing sources (uses)</b>	<b>252,562</b>	<b>134,461</b>	<b>387,023</b>
<b>Net change in fund balances</b>	<b>33,183</b>	<b>(29,785)</b>	<b>3,398</b>
Fund balances, beginning of period	418,490	867,098	1,285,588
<b>Fund balances, end of period</b>	<b>\$ 451,673</b>	<b>\$ 837,313</b>	<b>\$ 1,288,986</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2007**

Net change in fund balances - total governmental funds	\$	3,398
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		299,288
Subtract: depreciation expense		(870,879)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Subtract: current year payment of special assessments and contracts receivable		(1,600)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		71,640
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in the accrued interest payable		875
Subtract: increase in the accrual of compensated absences		(12,853)
Add: increase in the net pension asset		17,116

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue		6,128
Add: gain on sale of capital asset		1,842
Subtract: transfer out		(10,980)
Subtract: net operating loss from governmental activities accounted for in internal service funds		7,260

Change in net assets of governmental activities	\$	<u>(488,765)</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**For the year ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>				
Property taxes	\$ 657,400	\$ 657,400	\$ 634,283	\$ (23,117)
Licenses and permits	35,600	35,600	13,729	(21,871)
Intergovernmental:				-
Federal	150,000	75,000	84,158	9,158
State	545,320	545,320	522,261	(23,059)
Charges for services	50,160	50,160	46,761	(3,399)
Fines and forfeits	13,000	13,000	10,917	(2,083)
Interest and rent	28,650	28,650	32,210	3,560
Other	37,050	37,050	56,285	19,235
<b>Total revenues</b>	<b>1,517,180</b>	<b>1,442,180</b>	<b>1,400,604</b>	<b>(41,576)</b>
<b>Expenditures</b>				
Current				
General government	556,853	556,853	483,729	(73,124)
Public safety	672,280	692,280	693,193	913
Public works	166,940	166,940	144,420	(22,520)
Community and economic development	254,250	184,250	167,373	(16,877)
Recreation and culture	109,310	109,310	120,682	11,372
Debt service	10,599	10,599	10,586	(13)
<b>Total expenditures</b>	<b>1,770,232</b>	<b>1,720,232</b>	<b>1,619,983</b>	<b>(100,249)</b>
<b>Revenues over (under) expenditures</b>	<b>(253,052)</b>	<b>(278,052)</b>	<b>(219,379)</b>	<b>58,673</b>
<b>Other financing sources (uses)</b>				
Transfers in	270,250	270,250	301,562	31,312
Transfers (out)	(48,500)	(49,000)	(49,000)	-
<b>Total other financing sources (uses)</b>	<b>221,750</b>	<b>221,250</b>	<b>252,562</b>	<b>31,312</b>
<b>Net change in fund balance</b>	<b>(31,302)</b>	<b>(56,802)</b>	<b>33,183</b>	<b>89,985</b>
Fund balance, beginning of period	272,009	272,009	418,490	146,481
<b>Fund balance, end of period</b>	<b>\$ 240,707</b>	<b>\$ 215,207</b>	<b>\$ 451,673</b>	<b>\$ 236,466</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2007**

	Business-type Activities					Governmental
	Enterprise Funds					Activities
	Electric	Sewer and Water	Housing Commission	Solid Waste	Total	Internal Service Fund
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 487,273	\$ 74,405	\$ 485,618	\$ 30,290	\$ 1,077,586	\$ 97,718
Accounts receivable, net	288,300	166,152	33,449	28,277	516,178	-
Due from other funds	15,000	-	-	-	15,000	19,878
Due from other governments	-	68,640	-	-	68,640	-
Prepaid expenses	9,033	13,287	36,497	685	59,502	1,598
Inventory	134,749	45,866	-	-	180,615	3,750
Restricted assets:						
Cash and cash equivalents	65,292	189,984	-	-	255,276	-
Investments	1,034,852	301,137	-	-	1,335,989	-
Total current assets	2,034,499	859,471	555,564	59,252	3,508,786	122,944
Noncurrent assets						
Unamortized bond discount	-	9,046	-	-	9,046	-
Advance to other funds	100,000	-	-	-	100,000	-
Total noncurrent assets	100,000	9,046	-	-	109,046	-
Capital assets						
Land	214,981	-	40,831	-	255,812	-
Buildings and improvements	809,132	254,700	4,314,355	-	5,378,187	33,284
Equipment	9,817,103	94,078	194,748	-	10,105,929	1,181,606
Infrastructure	-	19,927,729	-	-	19,927,729	-
Construction in progress	81,649	173,627	30,000	-	285,276	-
	10,922,865	20,450,134	4,579,934	-	35,952,933	1,214,890
Less accumulated depreciation	(4,666,167)	(10,767,200)	(3,261,242)	-	(18,694,609)	(909,162)
Total capital assets	6,256,698	9,682,934	1,318,692	-	17,258,324	305,728
<b>Total assets</b>	<b>8,391,197</b>	<b>10,551,451</b>	<b>1,874,256</b>	<b>59,252</b>	<b>20,876,156</b>	<b>428,672</b>

continued...

	Business-type Activities						Governmental
	Enterprise Funds						Activities
	Electric	Sewer and Water	Housing Commission	Solid Waste	Total		Internal Service Fund
<b>Liabilities</b>							
Current liabilities							
Accounts payable	\$ 207,086	\$ 101,439	\$ 34,159	\$ 10,646	\$ 353,330	\$	10,643
Accrued expenses	20,288	54,141	15,116	393	89,938		4,632
Due to other funds	1,627	19,366	-	725	21,718		-
Deposits and other liabilities	23,468	11,333	12,719	-	47,520		-
Unearned revenue	-	-	671	-	671		-
Accrued vacation and sick	6,186	12,037	13,142	-	31,365		2,307
Bonds and contracts payable - current	115,000	-	-	-	115,000		-
Total current liabilities	373,655	198,316	75,807	11,764	659,542		17,582
Long-term liabilities							
Accrued vacation and sick	23,339	44,282	22,892	220	90,733		8,940
Bonds and contracts payable	615,000	1,060,000	-	-	1,675,000		-
Total long-term liabilities	638,339	1,104,282	22,892	220	1,765,733		8,940
<b>Total liabilities</b>	1,011,994	1,302,598	98,699	11,984	2,425,275		26,522
<b>Net assets</b>							
Investment in capital assets, net of related debt	5,526,698	8,622,934	1,318,692	-	15,468,324		305,728
Restricted for:							
Debt service	241,968	448,172	-	-	690,140		-
Capital projects	802,623	41,663	-	-	844,286		-
Unrestricted	807,914	136,084	456,865	47,268	1,448,131		96,422
<b>Total net assets</b>	\$ 7,379,203	\$ 9,248,853	\$ 1,775,557	\$ 47,268	\$ 18,450,881	\$	402,150

The accompanying notes are an integral part of these financial statements.



**CITY OF ST. LOUIS**  
**RECONCILIATION OF THE PROPRIETARY FUNDS STATEMENT OF**  
**NET ASSETS TO THE STATEMENT OF NET ASSETS**  
**June 30, 2007**

Net assets - total enterprise funds	\$ 18,450,881
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Amounts reported for business-type activities in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in internal service funds	<u>186,675</u>
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Net assets of business-type activities	<u><u>\$ 18,637,556</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**STATEMENT OF REVENUE, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the year ended June 30, 2007**

	<b>Business-type Activities</b>					<b>Governmental Activities</b>
	<b>Enterprise Funds</b>					<b>Internal Service Fund</b>
	<b>Electric</b>	<b>Sewer and Water</b>	<b>Housing Commission</b>	<b>Solid Waste</b>	<b>Total</b>	
<b>Operating revenues</b>						
Charges for services	\$ 3,339,290	\$ 1,493,596	\$ 143,755	\$ 261,811	\$ 5,238,452	\$ 262,465
HUD operating subsidies	-	-	919,628	-	919,628	-
Other revenue	5,642	42,636	949	-	49,227	-
<b>Total operating revenues</b>	<b>3,344,932</b>	<b>1,536,232</b>	<b>1,064,332</b>	<b>261,811</b>	<b>6,207,307</b>	<b>262,465</b>
<b>Operating expenses</b>						
Salaries and wages	325,984	428,607	-	38,183	792,774	41,357
Employee benefits	163,601	216,822	-	17,367	397,790	26,905
Housing assistance payments	-	-	470,583	-	470,583	-
Supplies	45,615	78,166	-	1,037	124,818	21,772
Dues and fees	16,586	2,106	-	-	18,692	-
Postage	4,186	8,089	-	-	12,275	-
Gas and fuel	15	929	-	-	944	39,635
Uniforms	95	258	-	-	353	-
Contracted services	63,250	100,204	-	134,236	297,690	840
insurance	12,125	21,993	-	-	34,118	14,572
Communications	5,179	7,856	-	-	13,035	-
Travel	4,249	2,640	-	-	6,889	126
Utilities	21,044	237,978	79,143	-	338,165	-
Energy purchases	1,832,979	-	-	-	1,832,979	-
Energy transmission	45,720	-	-	-	45,720	-
Street lighting	36,901	-	-	-	36,901	-
Repair and maintenance	12,217	71,891	135,524	-	219,632	39,518
Equipment rental	25,534	49,427	-	39,403	114,364	8,241
Miscellaneous	70,772	611	175,527	250	247,160	345
Education and training	9,671	780	-	-	10,451	-
Bad debt expense	-	-	3,888	-	3,888	-
Depreciation	201,538	414,028	125,446	-	741,012	55,404
<b>Total operating expenses</b>	<b>2,897,261</b>	<b>1,642,385</b>	<b>990,111</b>	<b>230,476</b>	<b>5,760,233</b>	<b>248,715</b>
<b>Operating income (loss)</b>	<b>447,671</b>	<b>(106,153)</b>	<b>74,221</b>	<b>31,335</b>	<b>447,074</b>	<b>13,750</b>
<b>Nonoperating revenues (expenses)</b>						
Investment earnings	67,576	15,315	9,285	599	92,775	6,128
Interest expense	(36,038)	(59,529)	-	-	(95,567)	-
Intergovernmental	-	68,640	-	-	68,640	-
Gain (loss) on sale of assets	-	-	(375)	-	(375)	1,842
<b>Total nonoperating revenues (expenses)</b>	<b>31,538</b>	<b>24,426</b>	<b>8,910</b>	<b>599</b>	<b>65,473</b>	<b>7,970</b>
<b>Income (loss) before transfers</b>	<b>479,209</b>	<b>(81,727)</b>	<b>83,131</b>	<b>31,934</b>	<b>512,547</b>	<b>21,720</b>
<b>Transfers</b>						
Transfers (out)	(235,212)	(123,494)	-	(17,337)	(376,043)	(10,980)
<b>Changes in net assets</b>	<b>243,997</b>	<b>(205,221)</b>	<b>83,131</b>	<b>14,597</b>	<b>136,504</b>	<b>10,740</b>
Net assets, beginning of period	7,135,206	9,454,074	1,692,426	32,671	18,314,377	391,410
<b>Net assets, end of period</b>	<b>\$ 7,379,203</b>	<b>\$ 9,248,853</b>	<b>\$ 1,775,557</b>	<b>\$ 47,268</b>	<b>\$ 18,450,881</b>	<b>\$ 402,150</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGE IN FUND NET ASSETS OF ENTERPRISE FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2007**

Change in net assets - total enterprise funds	\$ 136,504
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Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities.

Subtract: net operating loss from business-type activities accounted for in internal service funds

6,490

Change in net assets of business-type activities

\$ 142,994

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended June 30, 2007

	Business-type Activities					Governmental Activities
	Enterprise Funds					Internal Service Fund
	Electric	Sewer and Water	Housing Commission	Solid Waste	Total	
<b>Cash flows from operating activities</b>						
Cash received from customers and users	\$ 3,303,062	\$ 1,505,988	\$ 1,034,774	\$ 256,440	\$ 6,100,264	\$ -
Cash received from interfund services provided	1,627	19,366	-	725	21,718	262,465
Cash payments to suppliers for goods and services	(2,049,449)	(543,883)	(704,982)	(178,637)	(3,476,951)	(137,480)
Cash payments to employees for services	(504,478)	(654,422)	(159,698)	(56,738)	(1,375,336)	(66,535)
<b>Net cash provided (used) by operating activities</b>	<b>750,762</b>	<b>327,049</b>	<b>170,094</b>	<b>21,790</b>	<b>1,269,695</b>	<b>58,450</b>
<b>Cash flows from noncapital financing activities</b>						
Interest income	67,576	15,315	9,285	599	92,775	6,128
Transfers (out)	(235,212)	(123,494)	-	(17,337)	(376,043)	(10,980)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(167,636)</b>	<b>(108,179)</b>	<b>9,285</b>	<b>(16,738)</b>	<b>(283,268)</b>	<b>(4,852)</b>
<b>Cash flows from capital and related financing activities</b>						
Purchase and construction of capital assets	(278,307)	(212,588)	(161,600)	-	(652,495)	(41,884)
Principal paid on capital debt	(120,000)	(105,000)	-	-	(225,000)	-
Interest paid on capital debt	(36,038)	(59,529)	-	-	(95,567)	-
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(434,345)</b>	<b>(377,117)</b>	<b>(161,600)</b>	<b>-</b>	<b>(973,062)</b>	<b>(41,884)</b>
<b>Cash flows from investing activities</b>						
Sale of investments	-	63,059	-	-	63,059	-
Purchase of investments	(29,220)	-	-	-	(29,220)	-
<b>Net cash provided (used) by investing activities</b>	<b>(29,220)</b>	<b>63,059</b>	<b>-</b>	<b>-</b>	<b>33,839</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>119,561</b>	<b>(95,188)</b>	<b>17,779</b>	<b>5,052</b>	<b>47,204</b>	<b>11,714</b>
Cash and cash equivalents, beginning of period	433,004	359,577	467,839	25,238	1,285,658	86,004
<b>Cash and cash equivalents, end of period</b>	<b>\$ 552,565</b>	<b>\$ 264,389</b>	<b>\$ 485,618</b>	<b>\$ 30,290</b>	<b>\$ 1,332,862</b>	<b>\$ 97,718</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>						
Operating income (loss)	\$ 447,671	\$ (106,153)	\$ 74,221	\$ 31,335	\$ 447,074	\$ 13,750
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	201,538	414,028	125,446	-	741,012	55,404
Changes in assets and liabilities						
Amortization of bond discount	-	1,348	-	-	1,348	-
Accounts receivable	(26,870)	(30,244)	(29,558)	(5,371)	(92,043)	-
Due from other funds	(15,000)	-	-	-	(15,000)	(19,878)
Prepaid expenses	(1,592)	(4,434)	(24,592)	497	(30,121)	(617)
Inventory	135,037	2,373	-	-	137,410	1,215
Accounts payable	22,984	40,013	24,273	(4,208)	83,062	6,849
Accrued liabilities	(14,893)	(8,993)	606	(1,188)	(24,468)	1,727
Deposits and other liabilities	260	(255)	498	-	503	-
Due to other funds	1,627	19,366	-	725	21,718	-
Unearned revenue	-	-	(800)	-	(800)	-
<b>Total adjustments</b>	<b>303,091</b>	<b>433,202</b>	<b>95,873</b>	<b>(9,545)</b>	<b>822,621</b>	<b>44,700</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 750,762</b>	<b>\$ 327,049</b>	<b>\$ 170,094</b>	<b>\$ 21,790</b>	<b>\$ 1,269,695</b>	<b>\$ 58,450</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF ST. LOUIS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2007**

	<b>Agency Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,175
Accounts receivable	6,412
	<hr/>
<b>Total assets</b>	<b>\$ 11,587</b>
	<hr/> <hr/>
<b>Liabilities</b>	
Due to other governmental units	\$ 1,905
Due to individuals	9,682
	<hr/>
<b>Total liabilities</b>	<b>\$ 11,587</b>
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of St. Louis, Michigan, conform to generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

#### A. REPORTING ENTITY

Located in Gratiot County, Michigan, St. Louis was settled in 1853 along the banks of the Pine River, became a village in 1868, and was incorporated in 1891 as the City of St. Louis. Organized under Michigan's Comprehensive Home Rule City Act, the City of St. Louis is governed by a single ward, four member elected City Council and the Mayor. The Mayor is elected by the City at large and the City Council selects the mayor Pro Tem. The City Manager is appointed by the Council to administer the business of the City. The City of St. Louis provides the following services to approximately 4,500 residents as authorized by its charter; public safety (police and fire), highways and streets, electric, water, sewer, sanitation, recreation, public improvements, zoning, planning and general administrative services.

#### **Blended component unit**

Certain component units, despite being legally separate from the City, are so intertwined with the City's operations that they are in substance, the same as the City.

St. Louis Housing Commission - The Commission functions to provide subsidized housing to individuals of low and moderate income within the City. The commission operates an 80 unit housing project and administers a certificate program funded by the U.S. Department of Housing and Urban Development (HUD). Commissioners are appointed by City Council. The Commission prepares separate financial statements for submission to HUD, which can be obtained by writing Ms. Kerry Marsh, Director; P.O. Box 117; St. Louis, MI 48880.

#### **Discretely presented component unit**

The following component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The discretely presented component unit is an entity that is legally separate from the City, but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the financial statements to be misleading or incomplete.

# **CITY OF ST. LOUIS, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Downtown Development Authority- the Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority is comprised of individuals from the management of the City as well as residents who are appointed by the City Council. In addition, the Authority's budget is approved by the City Council. The Authority does not issue any other formal financial statements except as contained in the City's comprehensive annual financial report. Detail information can be obtained by contacting the City Clerk.

### **Joint Ventures**

#### **Mid-Michigan Community Fire Board**

The City is a member of the Mid-Michigan Community Fire Board (the "Fire Board"), which is a joint venture between the City of Saint Louis and the Townships of Bethany, Pine River, and Jasper. The governing Board is comprised of five members consisting of the Supervisor of each of the Townships, the City Manager and the City Clerk.

Each unit is responsible for funding its required local contribution to cover operational deficits based on the formula established by the Fire Board. The City's contribution for June 30, 2007, was \$70,270. The City maintains the accounting records for the Mid-Michigan Community Fire Board. Separate financial statements for the Fire Board can be obtained at the City of St. Louis administration office.

#### **Gratiot County Central Dispatch Authority**

The City is a member of the Gratiot County Central Dispatch Authority, which is a joint venture between Gratiot County, the State of Michigan, and the Cities of Alma, Saint Louis, Ithaca, and Breckenridge. The Authority provides central dispatch services for police and fire services in Gratiot County. The governing Board is comprised of 11 members. Gratiot County appoints six Board members consisting of the County Sheriff, a representative from the area townships, a representative from the area villages, one county citizen, and two county commissioners. Each of the other units appoints one Board member. The Authority has responsibility for preparing the annual budget, which is approved by Gratiot County, and to carry out all activities of the Authority.

The Authority receives funding from telephone surcharge fees and local contributions. A formula has been established to allocate the local contributions. The financial activities of the Gratiot County Central Dispatch Authority are reported in Gratiot County's financial statements as a component unit. The City has no equity interest in the Authority. Copies of Gratiot County's financial statements can be obtained by writing to Ms. Mary Sullivan, Gratiot County Treasurer; P.O. Box 437; Ithaca, MI 48847.



# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### **Mid-Michigan Area Cable Communications Consortium**

The City is a member of the Mid-Michigan Area Cable Communications Consortium, which is a joint venture between nine Mid-Michigan communities with cable franchised agreements granted to Charter Communications. The nine communities include the Cities of Alma, Clare, Ithaca, Mt. Pleasant, and Saint Louis, the Villages of Breckenridge and Shepherd, and the Townships of Pine River and Union. The Consortium is responsible for developing and monitoring the enforcement of the cable ordinance, negotiating and monitoring of cable franchise agreements, and, to the extent permitted by federal law, regulate cable rates. In the future, the consortium will be responsible for the operation of public education and governmental access channels. Each community is permitted to appoint two members of the governing Board. The Consortium has responsibility for preparing the annual budget.

A formula has been established to allocate the local contributions. There were no local contributions during the fiscal year ended, June 30, 2007. The financial activities of Mid-Michigan Area Cable Communications Consortium are reported in the financial statements of the City of Mt. Pleasant. The Consortium operates on a calendar year. There are no separate financial statements produced for the Consortium. Copies of the City of Mt. Pleasant financial statements can be obtained by writing to the City of Mt. Pleasant; 401 N. Main; Mt. Pleasant, MI 48860.

### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government, and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financial accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

# **CITY OF ST. LOUIS, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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The government reports the following major governmental fund:

The *General Fund* is the principal operating fund of the City. It is used to account for all revenues, expenditures, and activities not specifically accounted for in another fund.

The government reports the following major proprietary funds:

The *Electric Fund* accounts for the operation of an electricity utility system.

The *Sewer and Water Fund* accounts for the activities of the government's sewage disposal and treatment system and water system.

The *Housing Commission Fund* accounts for the activities of the St. Louis Housing Commission.

The *Solid Waste Fund* accounts for the activities of the government's solid waste disposal system.

Additionally, the City reports the following fund types:

The *Internal service fund* provides vehicle and equipment use to other departments or agencies of the government on a cost reimbursement basis.

*Agency funds* are used to account for assets held for other governments in an agency capacity, including tax collections.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

# **CITY OF ST. LOUIS, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Electric, Sewer and Water, Housing Commission and Solid Waste enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

#### **1. DEPOSITS AND INVESTMENTS**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value. State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

#### **2. RECEIVABLES AND PAYABLES**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

### 3. INVENTORY AND PREPAIDS

Inventory is valued at cost using the “first-in, first-out” (FIFO) method of accounting. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

### 4. CAPITAL ASSETS

Capital assets, which include property, plant, and equipment (the City owns infrastructure assets such as water and sewer systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include infrastructure prospectively from the date of implementation, June 30, 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-60
Building improvements	15-30
Water and Sewer systems	50-75
Infrastructure	5-30
Equipment	3-10

**CITY OF ST. LOUIS, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**5. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. FUND EQUITY**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**7. INTERFUND TRANSACTIONS**

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services. The accompanying financial statements generally reflect such transactions as transfers. Subsidies are also recorded as transfers.

The Internal Service Fund is used to record charges for services to all City departments and funds as operating revenue. All affected City funds record these payments to the Internal Service Fund as operating expenditures or expenses.

**8. COMPENSATED ABSENCES**

Compensated Absences (Vacation and Sick Leave) – Sick leave is earned at the rate of 10 hours per month, to be accumulated until a maximum of 500 hours is reached, and is kept to the employees credit. If at the end of a fiscal year, an employee has accumulated sick leave greater than 500 hours, one-half of the accumulated sick leave in excess of 500 hours is paid to the employee and the remainder is lost. Sick leave is not paid upon termination. Upon

# **CITY OF ST. LOUIS, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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retirement, employees hired before December 20, 1994, are entitled to be paid one half of any accumulated unused sick leave at the rate of pay prevailing at the time of such retirement. This liability is measured using the vesting method as described in GASB Statement # 16.

Employees receive vacation time on July 1st based on prior year's service. A maximum of 200 hours can be earned during the prior year. Added to earned vacation time is a maximum of 40 hours carryover of any prior year unused vacation time. Except for a 40 hour carryover, vacation time is to be used within the year received and is paid to employees upon termination.

### **9. RISK MANAGEMENT**

The City is exposed to various risks of loss related to claims, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to provide for these risks.

There was no change in coverage from the prior year. Settled claims have not exceeded the amounts of insurance coverage in any of the last three years.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. BUDGETS AND BUDGETARY ACCOUNTING**

Annual budgets for all governmental funds are adopted in compliance with Michigan Law. The budgets are prepared on the modified accrual basis, which is consistent with generally accepted accounting principles. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the function level for the General Fund and Special Revenue Funds.

The City does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at the end of the fiscal year and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### **B. EXCESS EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS**

The General fund had excess of expenditures over appropriations at the legal level of budgetary control as follows:

	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess Expenditure</u>
General Fund			
Public safety	\$ 692,280	\$ 693,193	\$ (913)
Recreation and culture	109,310	120,682	(11,372)

### **III. DETAILED NOTES ON ALL FUNDS**

#### **A. DEPOSITS AND INVESTMENTS**

	<u>Carrying Amount</u>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 2,104,337
Investments	91,633
Restricted cash and cash equivalents	357,765
Restricted investments	1,451,849
Component Unit:	
Cash and cash equivalents	45,667
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>5,175</u>
 Total	 <u><u>\$ 4,056,426</u></u>
 Notes to Financial Statements:	
Deposits	\$ 4,052,226
Cash on hand	<u>4,200</u>
 Total	 <u><u>\$ 4,056,426</u></u>



# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### *Statutory Authority*

The City is authorized by the State to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

### **Risks**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end \$2,974,733 of the City's bank balance of \$3,533,841 was exposed to custodial credit risk because it was uninsured and uncollateralized.

### B. Receivables

Receivables in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Taxes	\$ 11,700	\$ -
Accounts	14,701	516,136
Contracts		
Due within one year	1,262	-
Due after one year	22,198	-
Interest	537	42
Intergovernmental	<u>244,045</u>	<u>68,640</u>
Total	<u>\$ 294,443</u>	<u>\$ 584,818</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Intergovernmental receivable	\$ -	\$ 9,142
Contributions	-	8,774
Taxes receivable	2,558	-
Contracts receivable	<u>23,048</u>	<u>-</u>
Total	<u>\$ 25,606</u>	<u>\$ 17,916</u>

**CITY OF ST. LOUIS, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**C. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2007, was as follows:

**Primary Government**

	<u><b>Beginning Balance</b></u>	<u><b>Additions</b></u>	<u><b>Disposals</b></u>	<u><b>Ending Balance</b></u>
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 2,311,932	\$ 37,181	\$ -	\$ 2,349,113
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total capital assets not being depreciated</b>	<u>2,311,932</u>	<u>37,181</u>	<u>-</u>	<u>2,349,113</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	1,778,150	6,951	-	1,785,101
Equipment and vehicles	2,064,740	81,891	(23,716)	2,122,915
Infrastructure-storm sewer	2,701,677	-	-	2,701,677
Infrastructure-streets	20,660,730	233,666	-	20,894,396
Infrastructure-sidewalks	<u>938,095</u>	<u>-</u>	<u>-</u>	<u>938,095</u>
<b>Total capital assets being depreciated</b>	<u>28,143,392</u>	<u>322,508</u>	<u>(23,716)</u>	<u>28,442,184</u>
<b>Less accumulated depreciation</b>				
Buildings and improvements	(512,894)	(66,479)	-	(579,373)
Equipment and vehicles	(1,683,268)	(81,975)	7,168	(1,758,075)
Infrastructure-storm sewer	(1,867,266)	(54,034)	-	(1,921,300)
Infrastructure-streets	(14,396,345)	(692,525)	-	(15,088,870)
Infrastructure-sidewalks	<u>(656,667)</u>	<u>(31,270)</u>	<u>-</u>	<u>(687,937)</u>
<b>Total accumulated depreciation</b>	<u>(19,116,440)</u>	<u>(926,283)</u>	<u>7,168</u>	<u>(20,035,555)</u>
<b>Capital assets being depreciated, net</b>	<u>9,026,952</u>	<u>(603,775)</u>	<u>(16,548)</u>	<u>8,406,629</u>
<b>Governmental activities capital assets, net</b>	<u>\$11,338,884</u>	<u>\$ (566,594)</u>	<u>\$ (16,548)</u>	<u>\$10,755,742</u>

**CITY OF ST. LOUIS, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 239,476	\$ 16,336	\$ -	\$ 255,812
Construction in progress	<u>509,777</u>	<u>287,264</u>	<u>(511,765)</u>	<u>285,276</u>
<b>Capital assets not being depreciated</b>	<u>749,253</u>	<u>303,600</u>	<u>(511,765)</u>	<u>541,088</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	5,222,426	155,761	-	5,378,187
Equipment	9,857,515	253,337	(4,923)	10,105,929
Infrastructure	<u>19,476,167</u>	<u>451,562</u>	<u>-</u>	<u>19,927,729</u>
Total capital assets being depreciated	<u>34,556,108</u>	<u>860,660</u>	<u>(4,923)</u>	<u>35,411,845</u>
Less accumulated depreciation				
Buildings and improvements	(3,573,964)	(136,558)	-	(3,710,522)
Equipment	(4,310,662)	(197,451)	4,548	(4,503,565)
Infrastructure	<u>(10,073,519)</u>	<u>(407,003)</u>	<u>-</u>	<u>(10,480,522)</u>
Total accumulated depreciation	<u>(17,958,145)</u>	<u>(741,012)</u>	<u>4,548</u>	<u>(18,694,609)</u>
<b>Capital assets being depreciated, net</b>	<u>16,597,963</u>	<u>119,648</u>	<u>(375)</u>	<u>16,717,236</u>
<b>Business-type activities capital assets, net</b>	<u>\$17,347,216</u>	<u>\$ 423,248</u>	<u>\$ (512,140)</u>	<u>\$17,258,324</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
Legislative	\$ 3,201
General government	40,998
Public safety	22,758
Public works	837,221
Recreation and culture	<u>22,105</u>
<b>Total depreciation expense – governmental activities</b>	<b><u>\$ 926,283</u></b>

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

**Business-type activities:**

Electric	\$ 201,538
Sewer/Water	414,028
Housing Commission	<u>125,446</u>

**Total depreciation expense – business-type activities**      **\$ 741,012**

**Construction Commitments**

The City had several construction projects in process at June 30, 2007. Many of the projects had construction commitments at year end. The Auto Meter Read System project had a balance remaining of approximately \$350,000 at year end. This project will be completed over the next three fiscal years. The City's portion of the MDOT Enhancement project had a balance remaining of approximately \$75,000. The City's portion of the Olive Road project had a balance of approximately \$71,000 remaining at year end. The remaining balance of the West-Side Expansion project is approximately \$40,000 at year end. The waste water and water system improvement projects are long-term projects. The total remaining cost to the City on these projects cannot be estimated at June 30, 2007.

**D. PAYABLES**

Accounts payable and accrued liabilities in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts	\$ 92,090	\$ 353,330
Wages, fringe benefits and other accrued liabilities	43,168	75,912
Deposits	550	47,520
Interest payable	<u>7,987</u>	<u>14,026</u>
Total	<u>\$ 143,795</u>	<u>\$ 490,788</u>

**E. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

For the year ended June 30, 2007, the City had an outstanding advance between the Electric Fund and General Fund. The Electric Fund advanced the General Fund \$100,000 for the construction of the City swimming pool. No repayment schedule has been established by the City Council other than the advance must be repaid within 20 years.

**CITY OF ST. LOUIS, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**Due From:**

<b>Due to:</b>	<b>General</b>	<b>Nonmajor Governmental</b>	<b>Electric</b>	<b>Sewer and Water</b>	<b>Solid Waste</b>	<b>Total</b>
Internal Service	\$ 10,453	\$ 2,707	\$ 1,627	\$ 4,366	\$ 725	\$ 19,878
Electric	-	-	-	15,000	-	15,000
<b>Total</b>	<b><u>\$ 10,453</u></b>	<b><u>\$ 2,707</u></b>	<b><u>\$ 1,627</u></b>	<b><u>\$ 19,366</u></b>	<b><u>\$ 725</u></b>	<b><u>\$ 34,878</u></b>

The City often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Transfer From:**

<b>Transfer to:</b>	<b>General</b>	<b>Nonmajor Governmental</b>	<b>Internal Service</b>	<b>Electric</b>	<b>Sewer and Water</b>	<b>Solid Waste</b>	<b>Total</b>
General	\$ -	\$ 31,312	\$10,980	\$156,200	\$ 91,736	\$ 11,334	\$301,562
Nonmajor							
Governmental	49,000	52,000	-	79,012	31,758	6,003	217,773
<b>Total</b>	<b><u>\$ 49,000</u></b>	<b><u>\$ 83,312</u></b>	<b><u>\$10,980</u></b>	<b><u>\$235,212</u></b>	<b><u>\$ 123,494</u></b>	<b><u>\$ 17,337</u></b>	<b><u>\$519,335</u></b>

Interfund transfers include transfer of unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations; and, transfer of revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

**CITY OF ST. LOUIS, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS**

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**F. LONG-TERM DEBT**

Long-term debt of the City is comprised of the following:

	<b><u>Balance</u></b> <b><u>July 1,</u></b> <b><u>2006</u></b>			<b><u>Balance</u></b> <b><u>June 30,</u></b> <b><u>2007</u></b>	<b><u>Due Within</u></b> <b><u>One Year</u></b>
		<b><u>Additions</u></b>	<b><u>(Reductions)</u></b>		
<b>GOVERNMENTAL ACTIVITIES</b>					
1996 Building Authority Bonds principal due in annual installments of \$10,000 to \$40,000 through April of 2016, interest due semi-annually on October 1 <sup>st</sup> and April 1 <sup>st</sup> .	\$275,000	\$ -	\$ (20,000)	\$255,000	\$ 20,000
1997 Special Assessment Bond principal due in annual installments of \$2,000 to \$10,000 through February of 2007, interest due semi-annually on August 1 <sup>st</sup> and February 1 <sup>st</sup> .	10,000	-	(10,000)	-	-
1997 General Obligation Bond principal due in annual installments of \$2,000 to \$10,000 through February of 2007, interest due semi-annually on August 1 <sup>st</sup> and February 1 <sup>st</sup> .	\$ 10,000	\$ -	\$ (10,000)	\$ -	\$ -
2002 General Obligation Bond principal due in annual installments of \$20,000 to \$50,000 through October of 2017, interest due semi-annually on April 1 <sup>st</sup> and October 1 <sup>st</sup> .	430,000	-	(25,000)	405,000	25,000

**CITY OF ST. LOUIS, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS**

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GOVERNMENTAL ACTIVITIES (continued)

	<b>Balance July 1, 2006</b>	<b><u>Additions</u></b>	<b><u>(Reductions)</u></b>	<b>Balance June 30, 2007</b>	<b><u>Due Within One Year</u></b>
Vanhaften Trust Land Contract principal due in monthly installments of \$240 to \$330 through October of 2009, interest due monthly.	45,354	-	(3,370)	41,984	3,272
Capital Lease with GE Capital due in monthly installments of \$382 through February 2009	9,968	-	(3,270)	6,698	3,812
Employee compensated absences	<u>49,561</u>	<u>35,722</u>	<u>(22,987)</u>	<u>62,296</u>	<u>22,987</u>
Total Governmental Activities	<u>\$ 829,883</u>	<u>\$35,722</u>	<u>\$ (94,627)</u>	<u>\$770,978</u>	<u>\$ 75,071</u>



# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### BUSINESS-TYPE ACTIVITIES

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Water Supply and Sanitary Sewage Disposal Revenue Bonds 1996 principal due in annual installments of \$25,000 to \$90,000, interest due semi-annually on October 1 <sup>st</sup> and April 1 <sup>st</sup> .	\$460,000	\$ -	\$ (65,000)	\$395,000	\$ 75,000
Water Supply and Sanitary Sewage Disposal Revenue Bonds 1997 principal due in annual installments of \$30,000 to \$80,000, interest due semi-annually on October 1 <sup>st</sup> and April 1 <sup>st</sup> .	705,000	-	(40,000)	665,000	40,000
Electric Revenue Bonds, Dated September 1, 2001, principal due in annual installments of \$20,000 to \$80,000, interest due semi-annually on January 1 <sup>st</sup> and July 1 <sup>st</sup> .	850,000	-	(120,000)	730,000	-
Less: Deferred charges	(10,394)	-	1,348	(9,046)	-
Employee compensated absences	<u>132,282</u>	<u>21,181</u>	<u>(31,365)</u>	<u>122,098</u>	<u>31,365</u>
Total Business-Type Activities	<u>\$ 2,136,888</u>	<u>\$ 21,181</u>	<u>\$ (255,017)</u>	<u>\$1,903,052</u>	<u>\$ 146,365</u>

### Changes in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 725,000	\$ -	\$ (65,000)	\$ 660,000	\$ 45,000
Installment contracts	45,354	-	(3,370)	41,984	3,272
Capital leases	9,968	-	(3,270)	6,698	3,812
Compensated absences	<u>49,561</u>	<u>35,722</u>	<u>(22,987)</u>	<u>62,296</u>	<u>22,987</u>
Governmental activity Long-term liabilities	<u>\$ 829,883</u>	<u>\$ 35,722</u>	<u>\$ (94,627)</u>	<u>\$ 770,978</u>	<u>\$ 75,071</u>

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### Business-Type activities:

Bonds payable:					
Revenue Bonds	\$2,015,000	\$ -	\$ (225,000)	\$1,790,000	\$ 115,000
Deferred amounts-discount	(10,394)	-	1,348	(9,046)	-
Compensated absences	<u>132,282</u>	<u>21,181</u>	<u>(31,365)</u>	<u>122,098</u>	<u>31,365</u>
Business-Type activity					
Long-term liabilities	<u>\$2,136,888</u>	<u>\$ 21,181</u>	<u>\$ (255,017)</u>	<u>\$1,903,052</u>	<u>\$ 146,365</u>

For the governmental activities, compensated absences are generally liquidated by the general fund and certain special revenue funds.

Annual debt service requirements to maturity for general obligation, revenue bonds and notes are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 52,084	\$ 34,540	\$ 115,000	\$ 70,014
2009	56,991	32,117	190,000	79,368
2010	59,033	29,199	190,000	70,170
2011	59,282	26,603	200,000	60,565
2012	64,546	23,620	215,000	50,169
2013-2017	366,746	60,883	715,000	137,351
2018	<u>50,000</u>	<u>1,225</u>	<u>165,000</u>	<u>4,328</u>
Total	<u>\$ 708,682</u>	<u>\$ 208,187</u>	<u>\$ 1,790,000</u>	<u>\$ 471,965</u>

## IV. OTHER INFORMATION

### A. DEFINED BENEFIT PENSION PLAN

#### Pension Plan

##### Plan Description:

The City of St. Louis, Michigan, contributes to the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit public employee retirement plan administered by the MERS Retirement Board. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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MERS. A copy of that report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917 or by calling (800) 767-6377.

The pension plan provided pension benefits, deferred allowances, and death and disability benefits. Benefits vest after 6 years of service. Normal retirement is based on certain requirements.

The retirement allowance is reduced  $\frac{1}{2}$  of 1% for each complete month that the retirement date precedes the age at which full normal retirement benefits are available. Pension provisions include allowances whereby an employee may terminate employment with the City after accumulating 6 years of service but before reaching the age of 60 (age of 55 or 50 in certain cases). If the employee does not withdraw his or her accumulated contributions, the employee is entitled to all pension benefits upon reaching retirement age as discussed above.

Pension provisions include death and disability benefits. A disabled employee is entitled to full benefits after acquiring 6 or more years of credited service. A surviving spouse is entitled to receive 85% of the employee's straight life allowance. Children are entitled to 50% of the straight life allowance.

### Funding Policy:

The City is required to contribute at an actuarially determined rate; the current rate ranges between a flat rate and 17.22% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established, and may be amended, by the MERS Retirement Board. The contribution requirements of employees are established, and may be amended, by the City depending on the MERS contribution program adopted by the City.

### Annual Pension Cost:

For the year ended June 30, 2007, the City's annual pension cost of \$93,791 for MERS was equal to the City's required contributions. However, the City's actual contribution was \$110,907. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return of the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually after retirement. The actuarial value of MERS assets was determined on the basis

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

Annual Pension Cost and Net Pension Obligation. The County's annual pension cost and net pension obligation to MERS for the current year were as follows:

Annual required contribution	\$ 86,907
Interest on net pension asset	(5,168)
Adjustment to annual required contribution	<u>(12,052)</u>
Annual pension cost	93,791
Contributions made	<u>(110,907)</u>
Increase in net pension asset	17,116
Net pension obligation, beginning of year	<u>64,599</u>
<b>Net pension obligation, end of year</b>	<b><u><u>\$ 81,715</u></u></b>

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
6/30/05	\$ 82,183	126%	\$45,442
6/30/06	83,784	123%	64,599
6/30/07	93,791	118%	81,715

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered</u>
<u>Payroll</u>						
12/31/04	\$5,033,423	\$ 5,852,221	\$ 818,798	86%	\$ 803,382	102%
12/31/05	5,171,928	6,122,260	950,332	84%	852,428	111%
12/31/06	5,395,866	6,483,887	1,088,021	83%	852,428	166%

**CITY OF ST. LOUIS, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**B. DEFINED CONTRIBUTION PENSION PLAN**

In an effort to phase out the MERS defined benefit retirement plan described above, the City adopted a resolution to implement the ICMA Defined Contribution Money Purchase Plan for all employees of the City. Three plans, electrical employees, police employees, and non-union employees, were implemented beginning July 1, 1999, and are the only pension plans available to new employees after that date. The City's Defined Contribution Pension Plans are single employer defined contribution pension plans, established by the City and administered by an outside third-party administrator. The City's contribution is 8% of each participant's wages for the plan year contingent upon the participant electing to contribute 3% of earnings. The participants' contributions are immediately 100% vested and the City's contributions are vested over a five year period. Employer contributions for the plans were \$53,644 for the year ended June 30, 2007. Employee contributions for the plans were \$20,116 for the year ended June 30, 2007. Plan provisions and contribution requirements are established and may be amended by the City Council.

**C. BUILDING INSPECTION**

The City does not maintain a separate fund for building inspection services. Expenditures for these services are classified to a separate function throughout the year within the General Fund. During the year ended June 30, 2007, the building permit and inspection function of the City produced revenues totaling \$14,879 and incurred direct expenditures totaling \$66,246.

**D. CONTINGENT LIABILITIES**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City manages risk through the purchase of commercial insurance.

**Liability, vehicle physical damage, and property and crime** – The City is a member of the Michigan Municipal Liability and Property Pool, which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The City is insured up to the following limits: Liability - \$ 5,000,000, vehicle physical damage - \$ 5,000,000 and property and crime - \$5,000,000, subject to deductibles of \$1,000, \$100 - \$250 and \$1,000, respectively.

# CITY OF ST. LOUIS, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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When a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are increased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

The Plan does not maintain separate funds for members and consequently the City's share of Total Assets and Total Equity is unknown. Audited financial statements of the Plan are available.

**Worker's compensation** The City purchases coverage through the Michigan Municipal Workers' Compensation Fund. The Fund is authorized by State law to provide its members with coverage required by the Workers' Disability Compensation Act. Claims are subject to a maximum limit of \$500,000 per occurrence.

### E. RESTATEMENTS

For the City's Statement of Net Assets, a prior period adjustment in the amount of \$64,599 was necessary to properly account for the understatement of the net pension asset. during the year ended June 30, 2006. The effect on the net assets was as follows:

Net assets, beginning of year, as previously stated	\$ 11,718,243
Adjustment for net pension asset	<u>64,599</u>
Net assets, beginning of year, as restated	<u>\$ 11,782,842</u>

\* \* \* \* \*

## **SUPPLEMENTARY INFORMATION**

**CITY OF ST. LOUIS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**June 30, 2007**

	Special Revenue Funds					
	Major Street	Local Street	MAGNET	T.A. Cutler Memorial Library	Capital Improvement	Total
<u>ASSETS</u>						
Cash and cash equivalents	\$ 171,566	\$ 83,624	\$ 147,119	\$ 15,803	\$ 187,356	\$ 605,468
Investments	-	-	-	20,860	-	20,860
Accounts receivable, net	-	-	-	5,361	-	5,361
Due from other governments	40,033	15,220	3,865	2,552	-	61,670
Prepaid expenditures	302	115	-	550	-	967
Restricted assets:						
Cash and cash equivalents	-	-	-	33,212	-	33,212
Investments	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 211,901</b>	<b>\$ 98,959</b>	<b>\$ 150,984</b>	<b>\$ 78,338</b>	<b>\$ 187,356</b>	<b>\$ 727,538</b>
<u>LIABILITIES AND FUND BALANCES</u>						
<b>LIABILITIES</b>						
Accounts payable	\$ 26,476	\$ 810	\$ 12,886	\$ 4,294	\$ -	\$ 44,466
Accrued liabilities	762	715	-	3,822	-	5,299
Due to other funds	1,686	540	-	481	-	2,707
Deferred revenue	-	-	-	8,774	-	8,774
<b>TOTAL LIABILITIES</b>	<b>28,924</b>	<b>2,065</b>	<b>12,886</b>	<b>17,371</b>	<b>-</b>	<b>61,246</b>
<b>FUND BALANCES</b>						
Reserved:						
Permanent trust	-	-	-	-	-	-
Unreserved - undesignated	182,977	96,894	138,098	60,967	187,356	666,292
<b>TOTAL FUND BALANCES</b>	<b>182,977</b>	<b>96,894</b>	<b>138,098</b>	<b>60,967</b>	<b>187,356</b>	<b>666,292</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 211,901</b>	<b>\$ 98,959</b>	<b>\$ 150,984</b>	<b>\$ 78,338</b>	<b>\$ 187,356</b>	<b>\$ 727,538</b>



Debt Service Funds				Capital Project Funds		Permanent Fund	Total
1997 Special Assessment Bond	Building Authority	2002 General Obligation Limited Tax	Total	Swimming Pool	Total	Cemetery Perpetual Care	Nonmajor Governmental Funds
\$ 1,343	\$ 1,303	\$ -	\$ 2,646	\$ -	\$ -	\$ -	\$ 608,114
-	-	4,042	4,042	-	-	-	24,902
-	-	-	-	-	-	4,166	9,527
-	-	-	-	-	-	-	61,670
-	-	-	-	-	-	-	967
-	-	-	-	-	-	44,307	77,519
-	-	-	-	-	-	115,860	115,860
<u>\$ 1,343</u>	<u>\$ 1,303</u>	<u>\$ 4,042</u>	<u>\$ 6,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,333</u>	<u>\$ 898,559</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,466
-	-	-	-	-	-	-	5,299
-	-	-	-	-	-	-	2,707
-	-	-	-	-	-	-	8,774
-	-	-	-	-	-	-	61,246
-	-	-	-	-	-	151,098	151,098
<u>1,343</u>	<u>1,303</u>	<u>4,042</u>	<u>6,688</u>	<u>-</u>	<u>-</u>	<u>13,235</u>	<u>686,215</u>
<u>1,343</u>	<u>1,303</u>	<u>4,042</u>	<u>6,688</u>	<u>-</u>	<u>-</u>	<u>164,333</u>	<u>837,313</u>
<u>\$ 1,343</u>	<u>\$ 1,303</u>	<u>\$ 4,042</u>	<u>\$ 6,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,333</u>	<u>\$ 898,559</u>

**CITY OF ST. LOUIS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**For the year ended June 30, 2007**

	Special Revenue Funds					
	Major Street	Local Street	MAGNET	T.A. Cutler Memorial Library	Capital Improvement	Total
<b>Revenues</b>						
Special assessments, net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:						
State	230,248	92,689	47,993	3,750	-	374,680
Charges for services	13,399	-	25,358	2,111	-	40,868
Fines and forfeits	-	-	-	111,566	-	111,566
Donations	-	-	54,870	-	-	54,870
Interest and rent	8,061	5,552	5,509	6,218	6,823	32,163
Other revenue	-	505	3,025	11,385	-	14,915
<b>Total revenues</b>	<b>251,708</b>	<b>98,746</b>	<b>136,755</b>	<b>135,030</b>	<b>6,823</b>	<b>629,062</b>
<b>Expenditures</b>						
Current:						
Public works	250,905	193,720	-	-	-	444,625
Public safety	-	-	107,605	-	-	107,605
Recreation and culture	-	-	-	188,633	-	188,633
Debt Service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
<b>Total expenditures</b>	<b>250,905</b>	<b>193,720</b>	<b>107,605</b>	<b>188,633</b>	<b>-</b>	<b>740,863</b>
<b>Revenues over (under) expenditures</b>	<b>803</b>	<b>(94,974)</b>	<b>29,150</b>	<b>(53,603)</b>	<b>6,823</b>	<b>(111,801)</b>
<b>Other financing sources (uses)</b>						
Transfers in	-	12,000	-	32,500	116,773	161,273
Transfers (out)	(12,000)	-	-	-	(53,334)	(65,334)
<b>Total other financing sources (uses)</b>	<b>(12,000)</b>	<b>12,000</b>	<b>-</b>	<b>32,500</b>	<b>63,439</b>	<b>95,939</b>
<b>Net change in fund balances</b>	<b>(11,197)</b>	<b>(82,974)</b>	<b>29,150</b>	<b>(21,103)</b>	<b>70,262</b>	<b>(15,862)</b>
Fund balances, beginning of period	194,174	179,868	108,948	82,070	117,094	682,154
<b>Fund balances, end of period</b>	<b>\$ 182,977</b>	<b>\$ 96,894</b>	<b>\$ 138,098</b>	<b>\$ 60,967</b>	<b>\$ 187,356</b>	<b>\$ 666,292</b>

Debt Service Funds				Capital Project Fund	Permanent Fund	Total Nonmajor Governmental Funds
1997 Special Assessment Bond	Building Authority	2002 General Obligation Limited Tax	Total	Swimming Pool	Cemetery Perpetual Care	
\$ 1,715	\$ -	\$ -	\$ 1,715	\$ -	\$ -	1,715
-	-	-	-	-	-	374,680
-	-	-	-	-	-	40,868
-	-	-	-	-	-	111,566
-	-	-	-	-	-	54,870
172	35,004	42	35,218	24	5,280	72,685
-	-	4,000	4,000	-	2,093	21,008
1,887	35,004	4,042	40,933	24	7,373	677,392
-	-	-	-	-	-	444,625
-	-	-	-	-	-	107,605
-	-	-	-	-	-	188,633
20,000	20,000	25,000	65,000	-	-	65,000
1,730	15,540	18,505	35,775	-	-	35,775
21,730	35,540	43,505	100,775	-	-	841,638
(19,843)	(536)	(39,463)	(59,842)	24	7,373	(164,246)
16,500	-	40,000	56,500	-	-	217,773
-	-	-	-	(17,978)	-	(83,312)
16,500	-	40,000	56,500	(17,978)	-	134,461
(3,343)	(536)	537	(3,342)	(17,954)	7,373	(29,785)
4,686	1,839	3,505	10,030	17,954	156,960	867,098
\$ 1,343	\$ 1,303	\$ 4,042	\$ 6,688	\$ -	\$ 164,333	\$ 837,313

**CITY OF ST. LOUIS**  
**MAJOR STREET FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the year ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>				
State	\$ 243,500	\$ 243,500	\$ 230,248	\$ (13,252)
Charges for services	-	-	13,399	13,399
Interest and rent	4,000	4,000	8,061	4,061
Other	16,500	16,500	-	(16,500)
<b>Total revenues</b>	<u>264,000</u>	<u>264,000</u>	<u>251,708</u>	<u>(12,292)</u>
<b>Expenditures</b>				
Public works	<u>255,480</u>	<u>255,480</u>	<u>250,905</u>	<u>(4,575)</u>
<b>Total expenditures</b>	<u>255,480</u>	<u>255,480</u>	<u>250,905</u>	<u>(4,575)</u>
<b>Revenues over (under) expenditures</b>	8,520	8,520	803	(7,717)
<b>Other financing uses</b>				
Transfers out	<u>(12,000)</u>	<u>(12,000)</u>	<u>(12,000)</u>	<u>-</u>
<b>Net change in fund balance</b>	(3,480)	(3,480)	(11,197)	(7,717)
Fund balance, beginning of period	<u>194,174</u>	<u>194,174</u>	<u>194,174</u>	<u>-</u>
<b>Fund balance, end of period</b>	<u>\$ 190,694</u>	<u>\$ 190,694</u>	<u>\$ 182,977</u>	<u>\$ (7,717)</u>

**CITY OF ST. LOUIS**  
**LOCAL STREET FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**For the year ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>				
State	\$ 102,000	\$ 102,000	\$ 92,689	\$ (9,311)
Interest and rent	6,000	6,000	5,552	(448)
Other	500	500	505	5
<b>Total revenues</b>	<u>108,500</u>	<u>108,500</u>	<u>98,746</u>	<u>(9,754)</u>
<b>Expenditures</b>				
Public works	201,450	221,450	193,720	(27,730)
<b>Revenues over (under) expenditures</b>	<u>(92,950)</u>	<u>(112,950)</u>	<u>(94,974)</u>	<u>17,976</u>
<b>Other financing sources</b>				
Transfers in	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>(80,950)</u>	<u>(100,950)</u>	<u>(82,974)</u>	<u>17,976</u>
Fund balance, beginning of period	<u>179,868</u>	<u>179,868</u>	<u>179,868</u>	<u>-</u>
<b>Fund balance, end of period</b>	<u><u>\$ 98,918</u></u>	<u><u>\$ 78,918</u></u>	<u><u>\$ 96,894</u></u>	<u><u>\$ 17,976</u></u>

**CITY OF ST. LOUIS**  
**MAGNET**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**For the year ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>				
State	\$ 22,000	\$ 22,000	\$ 47,993	\$ 25,993
Fines and forfeitures	15,500	15,500	25,358	9,858
Contributions from local units	69,150	69,150	54,870	(14,280)
Interest and rent	500	500	5,509	5,009
Other	-	-	3,025	3,025
<b>Total revenues</b>	107,150	107,150	136,755	29,605
<b>Expenditures</b>				
Public safety	107,150	107,150	107,605	455
<b>Net change in fund balance</b>	-	-	29,150	29,150
Fund balance, beginning of period	95,389	95,389	108,948	(13,559)
<b>Fund balance, end of period</b>	<u>\$ 95,389</u>	<u>\$ 95,389</u>	<u>\$ 138,098</u>	<u>\$ 42,709</u>

**CITY OF ST. LOUIS**  
**T.A. CUTLER MEMORIAL LIBRARY SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**For the year ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>				
State	\$ 3,500	\$ 3,500	\$ 3,750	\$ 250
Charges for services	1,500	1,500	2,111	611
Fines and forfeits	105,000	105,000	111,566	6,566
Interest and rent	2,000	2,000	6,218	4,218
Donations	600	600	-	(600)
Other revenue	6,000	6,000	11,385	5,385
<b>Total revenues</b>	118,600	118,600	135,030	16,430
<b>Expenditures</b>				
Recreation and culture:				
Library	181,880	181,880	188,633	6,753
<b>Revenues over (under) expenditures</b>	(63,280)	(63,280)	(53,603)	9,677
<b>Other financing sources (uses)</b>				
Transfers in	32,500	32,500	32,500	-
<b>Net change in fund balance</b>	(30,780)	(30,780)	(21,103)	9,677
Fund balances, beginning of period	69,308	69,308	82,070	12,762
<b>Fund balances, end of period</b>	<u>\$ 38,528</u>	<u>\$ 38,528</u>	<u>\$ 60,967</u>	<u>\$ 22,439</u>

**CITY OF ST. LOUIS**  
**CAPITAL IMPROVEMENT SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**For the year ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>				
Interest and rent	\$ 2,500	\$ 6,000	\$ 6,823	\$ 823
 <b>Other financing sources (uses)</b>				
Transfers in	125,600	174,015	116,773	(57,242)
Transfers out	(40,000)	(53,335)	(53,334)	1
<b>Total other financing source (uses)</b>	85,600	120,680	63,439	(57,241)
<b>Net change in fund balance</b>	(83,100)	(114,680)	70,262	58,064
Fund balances, beginning of period	69,308	69,308	117,094	47,786
<b>Fund balances (deficit), end of period</b>	<u>\$ (13,792)</u>	<u>\$ (45,372)</u>	<u>\$ 187,356</u>	<u>\$ 105,850</u>



**CITY OF ST. LOUIS**  
**TRUST AND AGENCY FUNDS**  
**COMBINING BALANCE SHEET**  
**June 30, 2007**

	<b>Agency Funds</b>			
	<b>Tax Collection</b>	<b>Bethany Trust</b>	<b>Employee Flexible Benefit Plan</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,905	\$ -	\$ 3,270	\$ 5,175
Accounts receivable	-	6,412	-	6,412
<b>Total assets</b>	<b>\$ 1,905</b>	<b>\$ 6,412</b>	<b>\$ 3,270</b>	<b>\$ 11,587</b>
<b>Liabilities</b>				
Accrued liabilities	\$ 1,525	\$ -	\$ -	\$ 1,525
Due to others	-	-	-	-
Due to other governments	380	-	-	380
Due to individuals	-	6,412	3,270	9,682
<b>Total liabilities</b>	<b>\$ 1,905</b>	<b>\$ 6,412</b>	<b>\$ 3,270</b>	<b>\$ 11,587</b>

**CITY OF ST. LOUIS**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**For the year ended June 30, 2007**

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b><u>TAX COLLECTION</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 13,009	\$ 2,119,653	\$ 2,130,757	\$ 1,905
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 2,132,807	\$ 2,132,807	\$ -
Accrued liabilities	4,617	615,968	619,060	1,525
Due to others	1,000	-	1,000	-
Due to other governments	7,392	1,529,310	1,536,322	380
<b>Total liabilities</b>	<b>\$ 13,009</b>	<b>\$ 4,278,085</b>	<b>\$ 4,289,189</b>	<b>\$ 1,905</b>
<b><u>BETHANY TRUST</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 24,882	\$ 24,882	\$ -
Accounts receivable	3,131	5,728	2,447	6,412
<b>Total assets</b>	<b>\$ 3,131</b>	<b>\$ 30,610</b>	<b>\$ 27,329</b>	<b>\$ 6,412</b>
<b>Liabilities</b>				
Due to other governments	\$ 3,131	\$ 28,163	\$ 24,882	\$ 6,412
<b><u>EMPLOYEE FLEXIBLE BENEFIT FUND</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 2,494	\$ 2,984	\$ 2,208	\$ 3,270
<b>Liabilities</b>				
Due to individuals	\$ 2,494	\$ 2,984	\$ 2,208	\$ 3,270
<b>TOTAL - ALL AGENCY FUNDS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 15,503	\$ 2,147,519	\$ 2,157,847	\$ 5,175
Accounts receivable	3,131	5,728	2,447	6,412
<b>Total assets</b>	<b>18,634</b>	<b>2,153,247</b>	<b>2,160,294</b>	<b>11,587</b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 2,132,807	\$ 2,132,807	\$ -
Accrued liabilities	4,617	615,968	619,060	1,525
Due to others	1,000	-	1,000	-
Due to other governments	10,523	1,557,473	1,561,204	6,792
Due to individuals	2,494	2,984	2,208	3,270
<b>Total liabilities</b>	<b>\$ 18,634</b>	<b>\$ 4,309,232</b>	<b>\$ 4,316,279</b>	<b>\$ 11,587</b>

## **SINGLE AUDIT SECTION**

**CITY OF ST. LOUIS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the year ended June 30, 2007**

<u>FEDERAL GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL AWARDS EXPENDED</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Public and Indian Housing	14.850a	\$ 202,816
Section 8 Housing Choice Vouchers	14.871	535,910
Public Housing Capital Fund	14.872	<u>180,902</u>
 TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		 919,628
U.S. DEPARTMENT OF JUSTICE		
Passed through the State of Michigan, Department of Community Health Health - Office of Drug Control Policy	16.738	46,730
U.S. ENVIRONMENTAL PROTECTION AGENCY		
Brownfield Pilot Grant	66.818	<u>65,575</u>
 TOTAL FEDERAL FINANCIAL ASSISTANCE		 <u><u>\$ 1,031,933</u></u>

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of St. Louis and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

December 14, 2007

City Council  
St. Louis, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of St. Louis, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of St. Louis, Michigan's basic financial statements, and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of St. Louis, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of St. Louis, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of St. Louis, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of St. Louis, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of St. Louis, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of St. Louis, Michigan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of St. Louis, Michigan's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of St. Louis, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of St. Louis, Michigan, in a separate letter dated December 14, 2007.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Johnson".



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

December 14, 2007

City Council  
St. Louis, Michigan

**Compliance**

We have audited the compliance of City of St. Louis, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. City of St. Louis, Michigan's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of St. Louis, Michigan's management. Our responsibility is to express an opinion on City of St. Louis, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of St. Louis, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of St. Louis, Michigan's compliance with those requirements.

In our opinion, City of St. Louis, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

### **Internal Control Over Compliance**

The management of City of St. Louis, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of St. Louis, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the governing body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.



**CITY OF ST. LOUIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: *Unqualified*

Internal controls over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiencies identified not  
considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial  
statements noted? \_\_\_\_\_ yes   X   no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiencies identified not  
considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Type of auditor's report issued on compliance  
for major programs: *Unqualified*

Any audit findings disclosed that are required to  
be reported in accordance with Circular A-133,  
Section 510(a)? \_\_\_\_\_ yes   X   no

**Identification of Major Programs:**

**CFDA Number(s)**

**Name of Federal Program or Cluster**

14.871

Housing Choice Vouchers

**CITY OF ST. LOUIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   yes        no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

**PRIOR YEAR FINDINGS**

None.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

December 14, 2007

To the City Council  
City of St. Louis

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of St. Louis for the year ended June 30, 2007, and have issued our report thereon dated December 14, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated September 6, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered City of St. Louis's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether City of St. Louis's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-

133, we examined, on a test basis, evidence about City of St. Louis's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on City of St. Louis's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of St. Louis's compliance with those requirements.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of St. Louis are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by City of St. Louis during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of St. Louis's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we

To the City Council  
City of St. Louis  
December 14, 2007  
Page 3

proposed, whether recorded or unrecorded by the City of St. Louis, either individually or in the aggregate, indicate matters that could have a significant effect on the City of St. Louis's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

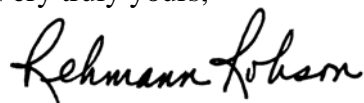
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of St. Louis's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the audit committee, the governing body, and management of the City of St. Louis and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

December 14, 2007

To the City Council  
City of St. Louis

In planning and performing our audit of the financial statements of City of St. Louis as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered City of St. Louis's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for purpose of expressing an opinion on the effectiveness of the Company's internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The following paragraphs summarize our comment and suggestion regarding this matter. We previously reported on the City's internal control in our report dated December 14, 2007. This letter does not affect our report dated December 14, 2007, on the financial statements of City of St. Louis.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various City personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, or to assist you implementing the recommendations.

The City of St. Louis has adopted a credit card policy. During our audit procedures, we observed instances of purchases on the City's credit card in violation of this policy. In particular, the policy states, "Any officer or employee using any credit card must submit documentation detailing the goods or services purchased, cost, date of purchase, and the official business." We observed instances of purchases with no vendor receipts and instances of purchases with no detailed receipts itemizing the purchases.

We recommend that procedures are put in place to enforce the City's credit card policy and that detailed receipts are obtained for all purchases in order to determine they are in compliance with the expenditures authorized by the State of Michigan.

This communication is intended solely for the information and use of the Audit Committee, the governing Board, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.